

CDM Smith India Private Limited

February 20, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	4.5	4.5	[ICRA]BB+(Negative); Revised from [ICRA]BBB- (Negative)
Bank Guarantee	13.0	13.0	[ICRA]A4+; Revised from [ICRA]A3
Unallocated Limits	1.5	1.5	[ICRA]BB+(Negative)/A4+; Revised from [ICRA]BBB-(Negative)/A3
Total	19.0	19.0	

Rating action

ICRA has revised the long-term rating from [ICRA]BBB- (pronounced ICRA triple B minus) to [ICRA]BB+ (pronounced ICRA double B plus) assigned to the Rs. 4.5-crore cash-credit facility of CDM Smith India Private Limited (CDM). ICRA has also revised the short-term rating from [ICRA]A3+ (pronounced ICRA A three) to [ICRA]A4+ (pronounced ICRA A four plus) assigned to the Rs. 13.00-crore non-fund based limit of CDM. The long-term/short-term rating has also been revised from [ICRA]BBB-/ [ICRA]A3 to [ICRA]BB+/[ICRA]A4+ assigned to the Rs. 1.5-crore unallocated limits of CDM. The outlook on the long-term rating continues to be 'Negative'.

Rationale

The rating downgrade takes into account the continuing de-growth in revenues of the company with its domestic consulting operations in the process of being wound up. The company has not been bidding for any new orders in this segment over the last two years. Going forward, the company is expected to focus only on outsourced work from its parent company-CDM Smith Inc, US and its divisions in other countries. The ratings also continue to factor in the high working capital intensity of operations owing to stretched receivables. These apart, ICRA also takes note of the ongoing case against the company for the alleged bribe paid to the National Highway Authorities of India officials as well as the ongoing dispute with tax authorities regarding certain tax liabilities. Any significant cash outflows resulting from these cases would be a credit negative.

Outlook: Negative

ICRA believes that the company's business risk profile will deteriorate further due to decline in the order book position. The ratings may be further downgraded, going forward, if the company's financial performance continues to be under pressure with decline in revenues and profits leading to weakening of the debt coverage metrics. Conversely, the outlook may be revised to stable if the company is able to improve its financial profile with pick up in the outsourcing work received from its parent company.

Key rating drivers

Credit strengths

Strong parentage with established track record of CDM Smith Inc, USA and the company in the engineering consultancy industry - CDM (erstwhile Wilbur Smith Associates Private Limited (WSAPL)), incorporated in 2001, is an engineering consultancy firm. The company was formed by CDM Smith Inc., USA in partnership with Infrastructure Leasing & Financial Service Ltd (IL&FS). CDM Smith Inc, USA, established in 1947, provides lasting and integrated solutions in water, environment, transportation, energy and facilities to public and private clients worldwide. It is headquartered in USA, with global presence in Asia Pacific, Europe, Latin America, Middle East/Africa and North America and has more than 5,000 employees working from offices worldwide.

Credit challenges

Weakening of financial profile with cash losses and deterioration of net worth in FY2017 – During FY2017, the financial profile of CDM witnessed significant weakening as evidenced by steep de-growth in revenues and decline in operating profitability. The net margins of the company were also adversely impacted due to extraordinary loss of Rs. 8.4 crore, primarily including provisions made for doubtful receivables. The accruals were further affected due to the additional tax liability arising from voluntary disclosure of certain inappropriate expenses, which has significantly eroded the company's net worth, leading to deterioration of the debt coverage indicators.

Uncertainty regarding cash outflow for the ongoing dispute with tax authorities regarding certain tax liabilities – The parent company, CDM Smith Inc, USA had voluntarily disclosed, about certain inappropriate amounts of expense incurred and debited to the Statement of Profit & Loss of the Company between 2011 and 2015 and volunteered to pay a disgorgement amount to the Department of Justice (DoJ), USA in June 2017. Based on this announcement, the Company was subjected to Income tax survey under Section 133A of the Income Tax Act, 1961 on July 13 and 14, 2017. Subsequently, the Company paid additional tax liability on the voluntary disclosure up to FY2014. With respect to financial year FY2015 and FY2016, the Income tax assessment is not yet completed/ commenced, therefore there is uncertainty regarding cash outflow arising from it, which might impact the financial position of the company.

Absence of long term contracts restricts the revenue visibility going forward- The Company has decided not to participate in bids for future infrastructure projects. Going forward, the company is expected to focus only on the projects outsourced from its parent company- CDM Smith Inc, US and its divisions in other countries.

High working capital intensity of operations- The working capital intensity of the company continues to remain high with NWC/OI of 30.3% in FY2017 primarily driven by the sizeable receivables levels.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company

CDM (erstwhile Wilbur Smith Associates Private Limited (WSAPL)), incorporated in 2001, is an engineering consultancy firm. The company was formed by CDM Smith Inc., USA in partnership with Infrastructure Leasing & Financial Service Ltd (IL&FS). In FY2012, the parent company, Wilbur Smith Associates, USA merged with Camp Dresser and McKee and name of the new entity became CDM Smith Inc. In FY2013, CDM Smith Inc acquired the 36.8% stake held by IL&FS, making it the largest shareholder of CDM. Subsequent to the acquisition of shares by CDM Smith Inc, the name of the company changed from "Wilbur Smith Associates Pvt Ltd" to "CDM Smith India Pvt Ltd".

In FY2017, the company reported a net loss of Rs. 6.9 crore on an operating income of Rs. 65.5 crore compared to a net profit of Rs. 4.7 crore on an operating income of Rs. 85.0 crore in the previous year.

Key Financial Indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	85.0	65.5
PAT (Rs. crore)	4.7	-6.9
OPBDIT/ OI (%)	7.7	3.0
RoCE (%)	30.2%	-21.4%
Total Debt/ TNW (times)	0.0	0.2
Total Debt/ OPBDIT (times)	0.0	1.1
Interest coverage (times)	15.0	5.0
NWC/ OI (%)	31%	30%

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2018)				Chronology of Rating History for the past 3 years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating		Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2014	
				Feb 2018	July 2017				
1	Cash Credit	Long Term	4.5	-	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB - (Stable)
2	Bank Guarantee	Short Term	13.0	-	[ICRA]A4+	[ICRA]A3	[ICRA]A3+	[ICRA]A3+	[ICRA]A3
3	Unallocated Limits	Long/Short Term	1.5	-	[ICRA]BB+ (Negative)/ [ICRA]A4+	[ICRA]BBB- (Negative)/ [ICRA]A3	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	4.5	[ICRA]BB+ (Negative)
NA	Bank Guarantee	-	-	-	13.0	[ICRA]A4+
NA	Unallocated Limits	-	-	-	1.5	[ICRA]BB+ (Negative)/[ICRA]A4+

Source: CDM

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